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BOOK REVIEWS AND NOTICES

Our Economic and Other Problems: A Financier's Point of View.

By OTTO H. KAHN. New York: George H. Doran Co., 1920.

In advertisements this book has been heralded far and wide as the epitome of the soundest thought in America on economic subjects. For some time it has been whispered within the craft that we economists fall short of perfection in stating our problems, in getting our facts, in keeping prejudice out of our inquiries, and in extracting conclusions from our materials. Of late, news of our proneness to untruth and irrelevance has been noised abroad and has even reached the ears of business men. This has given Mr. Kahn, an economic layman and a banker by trade, an occasion to exhibit sound method and substantial result to his erring professional brethren. He is a staunch believer in "pitting sober truth against glittering error," in the duty of business men "to inform themselves accurately" and in the compelling significance of facts. Very fittingly he insists, "Nor will we (business men) acknowledge in practical affairs the superior wisdom of theorists and doctrinaires."

The economic problems which he has selected for an exhibition of his method include among others the railroads, taxation, and "the menace of paternalism." The three addresses concerned with the railroads present ably his practical wisdom. To him "the system of private ownership and operation under governmental regulation and supervision . . . seems . . . in theory an almost perfect one"; but its practice amounts to a defiance of (unspecified) "economic law" and "common sense." He states that before the war the railroads were starved; though he neglects to give figures of earnings (or for the argument's sake refrains). He believes that during the war the railroads were operated "by the government," whatever that may mean. He admits that they (the railroads, not the officials) once upon a time were a little naughty, but attributes their failure to secure adequate capital to regulation. He would force them to "co-operate" and opposes a regional organization because it would stifle "competition." Above all he would keep this developing industry open to "private enterprise."

His discussion of taxation exhibits in like manner his factual method and his constructive bent. He opposes a steeply graduated income tax,

because our rates on large incomes are higher than those of Great Britain. He opposes heavy levies upon inheritances because the right of bequest is the incentive which leads one to accumulate wealth. Besides, nothing of real value is given to the fortunate, for "it is not the children of the rich to whom life yields the greatest measure of joy and satisfaction and reward." But the unpardonable feature of an "unscientific, inconsistent, and ill-designed" tax system is the excess profits tax. It is pernicious because it "lays a heavy and clumsy hand upon successful business activity," and because business is not hurt by it at all, since the manufacturer and merchant simply pass their burdens along to the consumer.

The demonstration that the excess profits tax is shifted to the consumer is of classic simplicity. It condenses fact and argument into the two words "of necessity." If Mr. Kahn had used his wit, or rather Mr. Alvin Johnson's wit, he would have discovered that if the manufacturer and merchant could advance prices to cover the tax, he could advance them had no tax been levied. If he had used his facts, or rather those of Mr. David Friday, he would have learned that the rise in the price level which followed the imposition of the heaviest taxes was slight and that a substantial rise followed their reduction. If he had used his insight into motives, or rather that of Mr. Thomas S. Adams, he would have seen that the excess profits tax merely performed the rhetorical function of economizing the ingenuity of sellers by supplying them with a ready-made excuse for the price advances which they were in position to make.

At best Mr. Kahn's impressions amount to an uncritical belief that income, inheritance, and excess profits taxes have consequences which those who pay them would like to avoid. Professed economists have long noted this as a characteristic of all taxes. He makes no comparison of the relative advantages and disadvantages of alternative schemes of taxation, which is the only question at issue. In fact only once does he suggest a substitute. He proposes a "tax on sales," begins playing with it naively, finds with dismay that it is becoming a "luxury tax," and speedily consigns the details of its formulation to that otherwise inefficient agency, the government.

The general system of economics which underlies these discussions breaks into explicit statement in Mr. Kahn's discussion of "the menace of paternalism." He defends an ideally individualistic and competitive system such as the economist is prone to locate in early nineteenth-century America, and the historian tells us never was. It is a system

wherein "the employee of today is the employer of tomorrow"; anyone, and presumably everyone, can get to the top; and economic rewards are exactly proportioned to innate abilities. Within it "Providence has bestowed upon His creatures, animate as well as inanimate, inequality of natural environment (endowment?), and from that springs and must necessarily spring inequality of results." Such a system "of necessity" makes of him an advocate of *laissez faire*. And if, time and again, he qualifies this with a tolerance of regulation, the tolerance is rhetorical. The regulation must be "just" and "wise" and not "drastic" and wholly ineffective, all of which enables him to be polite and saves him a verbal battle with the advocates of "control." Fortunately upon the question of the abandonment of so ideal a system and the adoption of a bureaucratic, paternalistic, socialistic order in its stead we cannot pronounce him wrong. There simply is no such question.

If the economists of the schools fail to learn accurate method and sound thought from Mr. Kahn the fault is not theirs. Their theoretical bent and cloistered experience makes it impossible for them to appreciate so practical and worldly wise a volume. They will discover that Mr. Kahn's facts could easily be driven into 10 of the 420 pages of his volume. They will find that five pages selected at random under the most niggardly accounting will yield nine unsupported conclusions with only vast oceans of rhetoric between. They will be suspicious of terms used without definition and of questions settled before they are stated. They will find hope in the quotation of authorities, as Gompers and Lincoln are quoted to overwhelm paternalism. But they will lose it when they find that, in spite of quotation marks, many of these authorities use the phrases of Mr. Kahn. Their belief in his "informed accuracy" can hardly survive the discovery that he cannot repeat the biblical injunction about giving Caesar his due or get through Browning's two lines about God's presence in heaven without violence to the original.

Some of the craft will look upon such ultimate terms as "the wisdom of centuries of human experience," "the wise teachings of the great architects of ordered Freedom," "the irresistible powers that make for progress," and "reason" and "equity" and "salutary regulation" and "broad considerations of business fairness and public policy" as a little vague. Some perchance will regard his thinking as hazy and his economics as comfortable rather than convincing.

Perchance, however, Mr. Kahn has been using the language of symbolism rather than that of fact. He may be an artist, and if so, it is unfair to judge his gifts in terms of the prosaic standards of science.

At any rate it is only just that the reviewer should penetrate the parts of the book given over to national piety and to art. This, however, is far beyond the margin of his competence, and he must compromise by noting Mr. Kahn's real gift of style. We get good writing, too rare a thing in economics, from one who "has traveled pretty well throughout the country" and is "well posted." We delight in hearing of the people having "their picture" taken; in catching a vision of "money . . . sinking into repose," and in contemplating the Hardingesque word "nouriture." It is professionally distressing to find that "economics are stubborn things." But there is relief in dreaming of the possibilities of style even when applied to the dismal science. For in a sentence that does not quite attain seven lines Mr. Kahn turns the railroads successively into children, men, serpents, angels, and philistines, and restores them to their own estate. It reads—"As the railroads grew towards man's estate and married and begot other railroads, they gradually sloughed off the roughness and objectionable ways of their early youth, and though they did not sprout wings, and though once in a while they did shock the community, they were amazingly capable at their work and really rendered service of inestimable value."

The economists are still far from eternal verity. Their best established conclusions are still hedged about with peradventures. They are still far from having harvested all the facts. They still wax hot in disputes over method. They are sadly in need of help from the laity. But unfortunately Mr. Kahn's offerings will not do. His judgments are too uncritical and the universe he contemplates is too unreal. The rescue is for someone else.

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Statistics in Business. By HORACE SECRIST. New York: McGraw-Hill Book Co., 1920. Pp. 137.

Professor Secrist in the Preface to *Statistics in Business* advises the reader as to what to expect. "Its purpose is to serve as a handbook for executives and others in responsible positions in the application of business statistics to problems which currently arise. To this end, the discussion is of a practical character—especial attention being given to the use of graphs and charts. Both good and bad statistical usages are developed by means of illustrations, and rules are formulated which will serve to guide executives at each step in business analysis by means of statistics."